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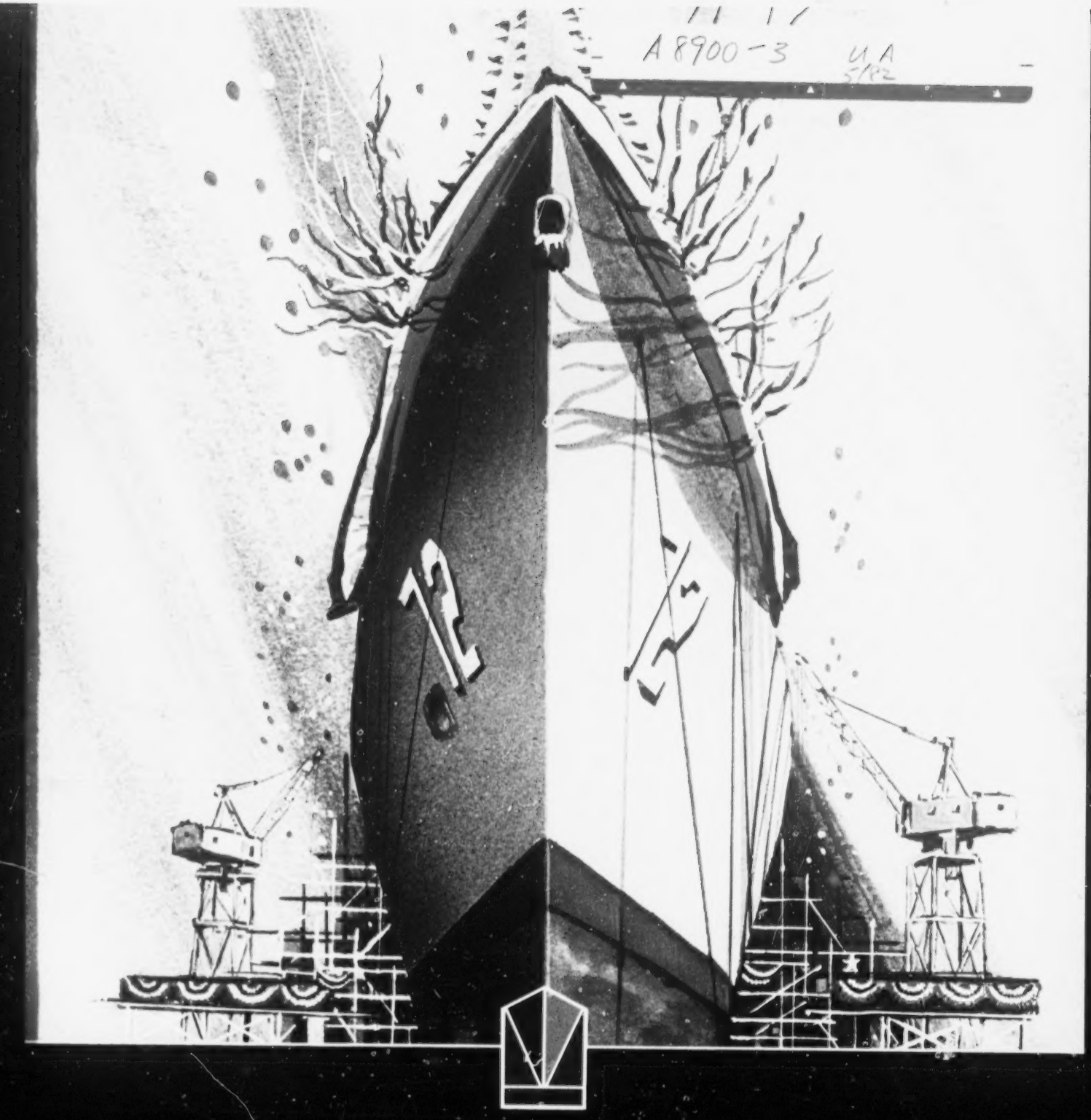

1981

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FOREWORD

A new era has commenced for the shipbuilding industry of the United States. This point is not generally realized. The ultimate essence and effect of this "new beginning" — to use President Reagan's slogan — are difficult to predict.

With the inauguration of the Reagan Administration in January 1981, there was a new sense of optimism within the industry that a comprehensive, coherent and coordinated shipbuilding industrial strategy would be promptly developed and promptly implemented to enhance national security. The rhetoric of the 1980 campaign was interpreted as supportive of that optimism, but 1981 ended on a puzzling note of ambiguity.

During the year, there were many clear evidences that naval ship construction is to be accelerated. Conversely, indications that merchant ship construction is headed for deceleration were increasingly plain.

Maintenance of an active shipbuilding mobilization base of 26 shipyards, as has been minimally considered essential for national security by both Government and industry, was, from all signs, lowered on the scale of national priorities. That base is is also defined to include supporting capabilities for the design of ships and the manufacture of ships components.

Because of the long lead-time associated with the construction of sophisticated warships, the full impact on shipbuilders of the expected expanded U.S. Navy program is at least three years away, and ultimately less than two-thirds of the present production base will be potentially utilized.

At year-end, with commercial ship construction in the United States waning seriously, Administration officials were openly encouraging foreign construction and conversion. The impression that construction subsidies and other traditional maritime supports may be eliminated has been inescapable. Budgeting constraints as well as philosophical polemics are already forcing deviations from long-standing procedures.

In these circumstances, the Reagan Administration has been endeavoring to develop a new policy to improve the maritime posture of the Nation. Assuming a positive direction for commercial ship construction, any new policy or program to correct the cumulative deficiencies in shipping resources of the recent past, however, could not affect U.S. shipbuilders in less than three years — just as with naval ship construction. Early reversal of current downward trends in shipyard employment and production, without the impetus of joint government/industry actions and implementation of an effective shipbuilding strategy, is therefore not foreseen.

Simply expressed, the shipbuilding industry of the United States faces a short-term adversity of substantial proportions and long-term prospects of uncertain dimensions. The infrastructure of an essential base for mobilization is accordingly in serious jeopardy.

The prevailing mood within the industry is thus one of ambivalence between pessimism and optimism. Pessimism in the sense that the outlook for commercial shipbuilding is distinctly unpromising and that any offsetting initiatives on the part of the Administration and the Congress may come too late for some yards. And, optimism in the sense that an upswing in naval shipbuilding seems definite, though its timing and magnitude, as always, are subject to political and economic considerations.

In sum, those yards with a comfortable backlog view the future with a high degree of optimism. Those forced to lay off skilled workers are deeply pessimistic. For all, naval construction awards plus ship conversions and repairs, both naval and commercial, will compose principal market opportunities for U.S. shipyards for at least three years.

Edwin M. Hood
President

March 17, 1982

OVERVIEW

President Reagan, in 1980 before entering The White House, stated that preservation of "our vital shipbuilding base" must be ensured. He explained: "It is essential that sufficient naval and commercial shipbuilding be undertaken to maintain the irreplaceable shipbuilding mobilization base. Without this nucleus of trained workers and established production facilities, we can never hope to meet any future challenge to our security."

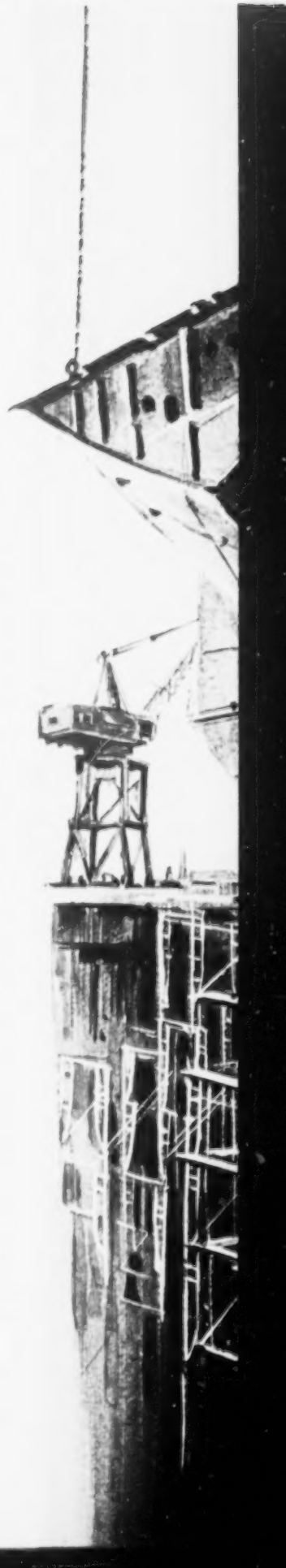
He also observed: "Should our shipbuilding capability continue to decline, America's mobilization potential will be seriously undermined because a large reduction in a skilled shipbuilding workforce today makes any increase tomorrow very difficult. This is a dangerous threat to our national security, jobs and a key U.S. industry."

Despite these admonitions, the "irreplaceable shipbuilding mobilization base," involving "a key U.S. industry," is not being maintained by "sufficient naval and commercial shipbuilding." "A skilled shipbuilding workforce" is being depleted, and "established production facilities" face an uncertain future.

This "dangerous threat to our national security" still awaits resolution as a matter of fundamental governmental policy.

To preserve a shipbuilding base capable of subsequent expansion, there must be a throughput of ship construction. Throughput is affected by a wide spectrum of factors, including the efficacy of government policy, the strength of the marketplace and the availability of capital. Without sufficient throughput, shipyard facilities and workforce cannot be preserved for national security or for any other purposes. Nor can they be managed in an efficient and productive manner. Without appropriate throughput, the potentials for improved productivity, increased output and lower costs are non-existent.

In the United States, unlike in other countries, there have been no comprehensive governmental moves to counter the decline in shipbuilding activity and employment. There has been no national direction

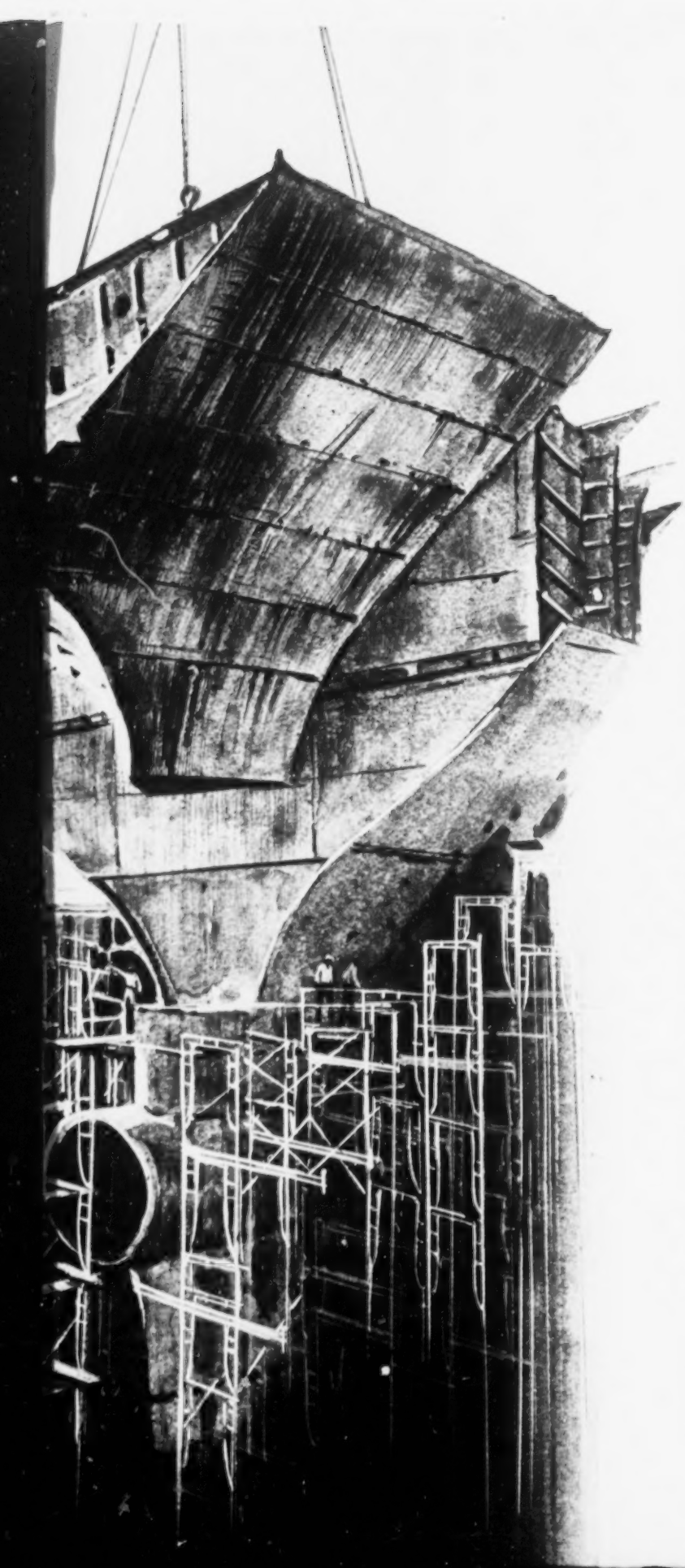


SHIPBUILDING AND REPAIR: TRENDS AND PROJECTIONS 1975-1982

(in millions of dollars except as noted)

ITEM	1975	1976	1977	1978	1979	1980[1]	1981[1]	1982[1]
Industry[2]								
Value of work done	5,615	5,896	6,495	6,943	7,539	8,743	9,790	10,800
Total Employment (thousands)	166.9	166.3	176.4	174.1	171.0	175.7	179.0	177.0
Production Workers (thousands)	133.4	132.1	139.9	138.4	136.7	139.7	142.3	141.0
Value added	2,923	3,287	3,825	4,107	4,587	5,158	5,776	6,372
Product[3]								
Value of work done total	5,513	5,833	6,270	6,688	7,466	8,428	9,438	10,420
Non-propelled new ships	443	645	491	724	1,045	1,250	1,480	1,695
Self-propelled new military ships	1,806	1,957	2,212	2,282	2,512	2,838	3,178	3,450
Self-propelled new non-military ships	1,806	1,825	1,917	1,861	1,890	2,135	2,391	2,511
Repair of military ships	554	644	718	912	969	1,095	1,226	1,400
Repair of non-military ships	688	715	789	809	998	1,048	1,148	1,335
Shipbuilding and repair, n.s.k.	54	47	143	—	53	62	15	29

[1]Estimated by Maritime Administration and Shipbuilders Council of America
[2]Includes value of all products and services sold by the shipbuilding and repair industry
[3]Includes value of work done on ships only
n.s.k. — not specified by kind
Source: Bureau of Census, Bureau of Labor Statistics, Maritime Administration, Shipbuilders Council of America



to assure the essence of throughput. National policy has been aimless. There has been little official interest in measures to assure operational and workforce stability in U.S. shipyards to the end that national security requirements will be served and that the essential shipbuilding mobilization base will be adequately maintained through the stimulation of an optimum level of contracts.

On the other hand, an Administration dedicated to a strong defense posture, as the Reagan Administration is, cannot longer ignore the shrinking shipbuilding mobilization base. Nor can an Administration dedicated to the creation of more jobs in a growing economy, as the Reagan Administration is, continue to ignore the implications of a declining nucleus of essential skills in shipyards and supporting activities that manufacture ships' components. The alternative will be to intensify the "dangerous threat to national security" to which President Reagan has referred.

Against this background, 1982, 1983 and 1984 will be especially crucial in terms of national shipbuilding capability. With high probability, that capability will be significantly further diminished in this period. The downturn in employment of skilled shipyard workers will not be slowed in the near-term: total employment among members of the Council, for example, will drop by as much as 15 percent in 1982. Plans for an expanded naval shipbuilding program will not provide an immediate reversal of a diminishing capability within the shipbuilding base. And, it is equally clear that naval shipbuilding will not alone sustain an adequate U.S. shipbuilding mobilization base.

From this moment forward, U.S. shipbuilders must not only plan for an uncertain near-term future but they must also anticipate how best to restore capabilities, including the costly task of reassembling a significant portion of a skilled workforce, to meet demands for the years after 1984.

NAVAL SHIPBUILDING

In sharp contrast to the negative outlook for merchant shipbuilding, the Reagan Administration has projected a five-year naval shipbuilding program involving 133 ships (plus 16 conversions) to fulfill its commitment to develop a 600-ship U.S. Navy (up from 454 at present) by the early 1990's. That segment of the U.S. industry usually devoted to naval ship construction can thus look forward to a crescendo of activity starting in about three years. An earlier impact on production is foreclosed by the long lead-time involved in the contracting for sophisticated warships.

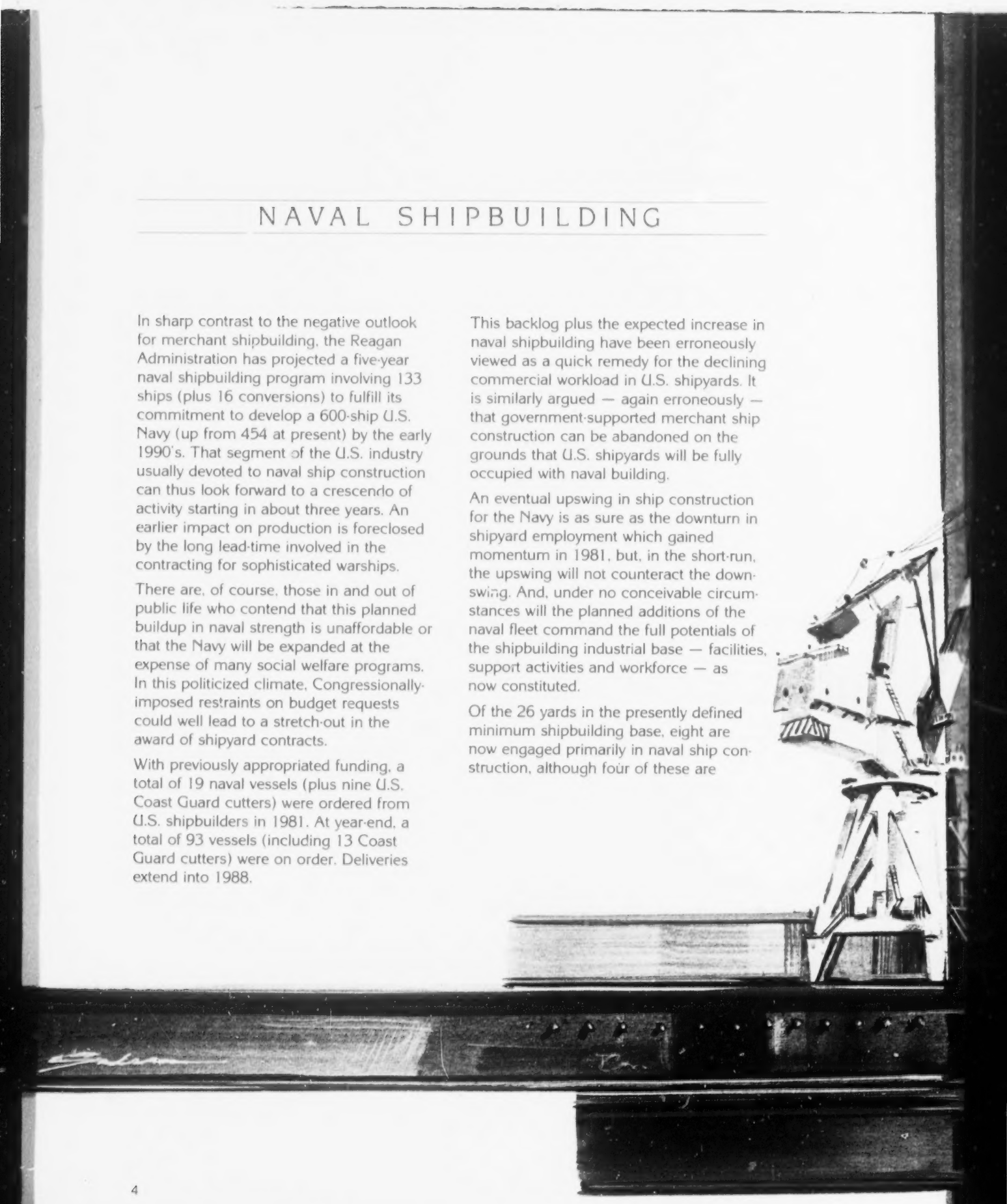
There are, of course, those in and out of public life who contend that this planned buildup in naval strength is unaffordable or that the Navy will be expanded at the expense of many social welfare programs. In this politicized climate, Congressionally-imposed restraints on budget requests could well lead to a stretch-out in the award of shipyard contracts.

With previously appropriated funding, a total of 19 naval vessels (plus nine U.S. Coast Guard cutters) were ordered from U.S. shipbuilders in 1981. At year-end, a total of 93 vessels (including 13 Coast Guard cutters) were on order. Deliveries extend into 1988.

This backlog plus the expected increase in naval shipbuilding have been erroneously viewed as a quick remedy for the declining commercial workload in U.S. shipyards. It is similarly argued — again erroneously — that government-supported merchant ship construction can be abandoned on the grounds that U.S. shipyards will be fully occupied with naval building.

An eventual upswing in ship construction for the Navy is as sure as the downturn in shipyard employment which gained momentum in 1981, but, in the short-run, the upswing will not counteract the downswing. And, under no conceivable circumstances will the planned additions of the naval fleet command the full potentials of the shipbuilding industrial base — facilities, support activities and workforce — as now constituted.

Of the 26 yards in the presently defined minimum shipbuilding base, eight are now engaged primarily in naval ship construction, although four of these are



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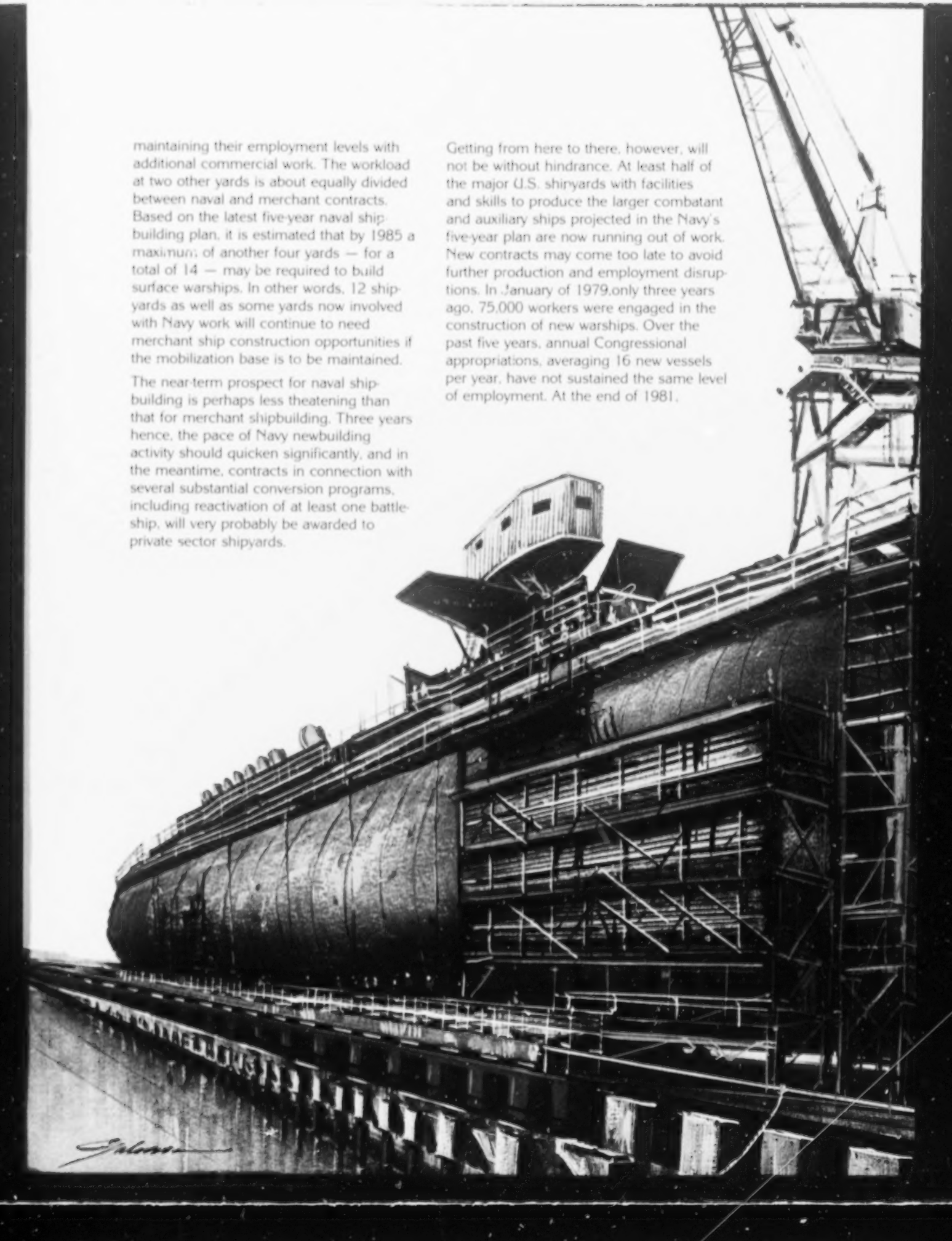
maintaining their employment levels with additional commercial work. The workload at two other yards is about equally divided between naval and merchant contracts. Based on the latest five-year naval shipbuilding plan, it is estimated that by 1985 a maximum of another four yards — for a total of 14 — may be required to build surface warships. In other words, 12 shipyards as well as some yards now involved with Navy work will continue to need merchant ship construction opportunities if the mobilization base is to be maintained.

The near-term prospect for naval shipbuilding is perhaps less theatening than that for merchant shipbuilding. Three years hence, the pace of Navy newbuilding activity should quicken significantly, and in the meantime, contracts in connection with several substantial conversion programs, including reactivation of at least one battleship, will very probably be awarded to private sector shipyards.

Getting from here to there, however, will not be without hindrance. At least half of the major U.S. shipyards with facilities and skills to produce the larger combatant and auxiliary ships projected in the Navy's five-year plan are now running out of work. New contracts may come too late to avoid further production and employment disruptions. In January of 1979,only three years ago, 75,000 workers were engaged in the construction of new warships. Over the past five years, annual Congressional appropriations, averaging 16 new vessels per year, have not sustained the same level of employment. At the end of 1981,

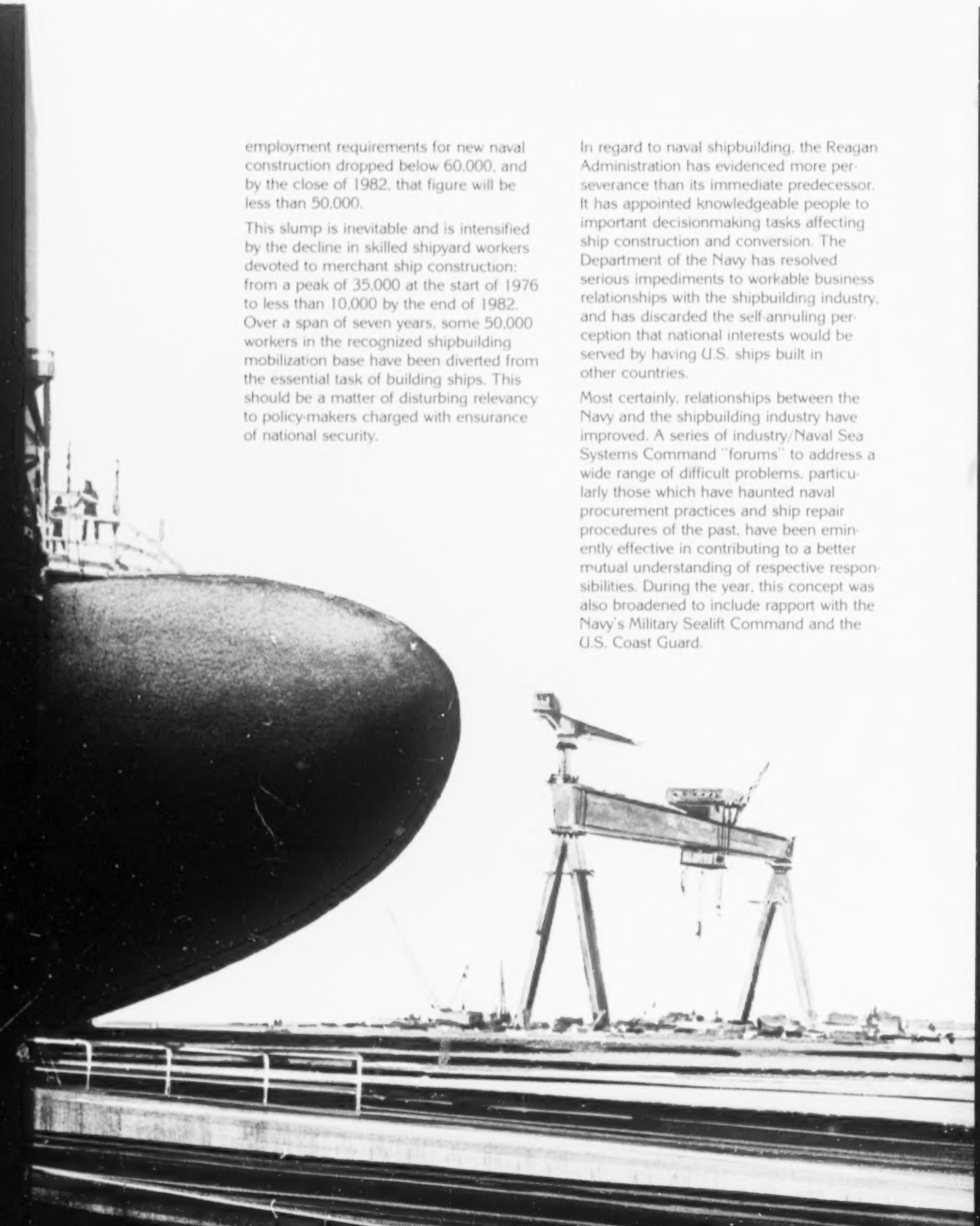


employment requirements for new naval construction dropped below 60,000, and by the close of 1982, that figure will be less than 50,000.

This slump is inevitable and is intensified by the decline in skilled shipyard workers devoted to merchant ship construction: from a peak of 35,000 at the start of 1976 to less than 10,000 by the end of 1982. Over a span of seven years, some 50,000 workers in the recognized shipbuilding mobilization base have been diverted from the essential task of building ships. This should be a matter of disturbing relevancy to policy-makers charged with ensurance of national security.

In regard to naval shipbuilding, the Reagan Administration has evidenced more perseverance than its immediate predecessor. It has appointed knowledgeable people to important decisionmaking tasks affecting ship construction and conversion. The Department of the Navy has resolved serious impediments to workable business relationships with the shipbuilding industry, and has discarded the self-annuling perception that national interests would be served by having U.S. ships built in other countries.

Most certainly, relationships between the Navy and the shipbuilding industry have improved. A series of industry/Naval Sea Systems Command "forums" to address a wide range of difficult problems, particularly those which have haunted naval procurement practices and ship repair procedures of the past, have been eminently effective in contributing to a better mutual understanding of respective responsibilities. During the year, this concept was also broadened to include rapport with the Navy's Military Sealift Command and the U.S. Coast Guard.



MERCHANT SHIPBUILDING

President Reagan's "new beginning" for America, as defined by Administration officials, envisions "maritime superiority" for the United States. This term can be confusing in the sense that a superiority in naval strength rather than a pre-eminence in sealift resources is evidently intended. Both, of course, are essential to national security.

A major mission of the U.S. Navy is to ensure freedom of the sealanes for the unhampered passage of those goods and products the United States must export for trade leverage and those critical materials the United States must import to survive.

As the world's leading trading nation, however, the United States ironically continues to condone the supremacy of foreign-flag merchant shipping on the very ocean's trade routes it is committed by tradition and necessity to keep free. In addition, the United States must import from overseas sources 68 of 71 critical and strategic materials without which domestic industries could not operate and the Nation's military establishment could not function. Dependence on more than 20 of these items ranges between 50 and 100 percent, and more than 95 percent of these materials, by volume, are brought to U.S. ports by ships flying the flags of other nations.

Given this high reliance on foreign source critical materials plus nearly complete reliance on foreign ocean shipping services in the context of unstable world conditions and the national security requirement of a shipbuilding mobilization base, the development and implementation of a more subjective, rational and reasonable policy and program to restore the United States to a position of pre-eminence as a maritime power becomes increasingly crucial. Unfortunately, in these respects, 1981 can only be characterized as another year of indecision.

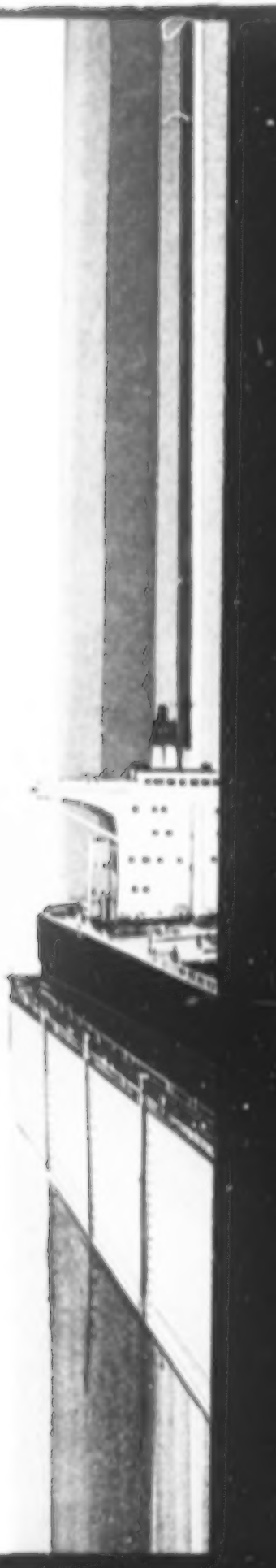
The existing U.S. orderbook for the construction of commercial oceangoing vessels is rapidly dwindling. In 1981, contracts for only nine newbuildings of 1,000 gross tons and over were placed with U.S. shipbuilders. (By comparison, in 1972 and 1973, 48 and 43 merchant ships were respectively ordered.) After the end of 1982, only eight vessels will remain to be delivered.

The Administration says it is "unable at this time (to) project a major merchant ship construction program" for U.S. shipbuilders, but hope is expressed that "we can achieve such a goal in the period ahead of us." The duration of the "period ahead," unfortunately, is not predicted.

Obviously, facilities for merchant ship construction in the United States are going to be idled, some perhaps permanently, and many thousands of skilled shipyard workers, including a high percentage of minorities, will be looking for jobs. A progression toward decimation of the commercial shipbuilding segment of the U.S. industry has already commenced, and a turn-around before 1984-1985, if then, is highly improbable.

This diminimus process has been set into motion, despite President Reagan's 1980 campaign proposals for maritime restoration. Through an unprecedented budget reconciliation in the Congress in mid-1981, subsidized shipowners may, for a limited time, build merchant ships abroad and still obtain substantial operating subsidies from the public treasury. This departure from traditional U.S. maritime policy has had strong Administration backing.

In addition to the likely end of construction subsidies, the Office of Management and Budget has indicated that Title XI ship mortgage guarantees are among Federal credit programs which may be reduced, if



not eliminated outright. By this program, which has been self-paying and thus no drain on the public treasury, construction, in U.S. shipyards, of thousands of ships and barges plus scores of offshore drilling rigs providing beneficial employment for many thousands of American citizens has been possible. Already the threat that Title XI may be abandoned has dampened the offshore oil drilling rig construction market which, in the past several years, has been expanding.

The destructive effects on U.S. shipbuilders, their workers and their suppliers will obviously be tremendous. Negative effects on the national economy could be substantial. Adverse effects on the "irreplaceable shipbuilding mobilzation" base cannot be denied. Ignored by the policy-makers in government are the concrete evidences that every major maritime power provides an extraordinary variety of direct and indirect subsidies to ensure the continued availability of shipping and shipbuilding resources considered essential to their national interests.

The President of the Association of West European Shipbuilders has quantified this practice of "political pricing" as ranging "anywhere from 10 to 60 percent" of vessel prices. As a consequence, many shipbuilders abroad can offer to build ships at prices well below cost — even below the cost of materials for a U.S.-built ship — with the acquiescence and indemnification of their governments.

INDUSTRY DEVELOPMENTS

As stated earlier, the shipbuilding industry of the United States faces a short-term adversity of substantial proportions and long-term prospects of uncertain dimensions.

While U.S. shipyards individually are and will be variously affected, this well-publicized vagueness of market opportunities tends to obscure the substantial investments in capital improvements and plant modernizations which have been made by the industry collectively since 1971. More than $2.3 billion have been spent in upgrading facilities, equipment, techniques and procedures. The expenditure of another $190 million took place in 1981 and $280 million is planned for 1982.

In light of unpromising market forecasts in the 1975-1981 period and the uncertain outlook as now perceived, the magnitude of these investments suggests "risk-taking" of the highest order. These actions on the part of U.S. shipbuilders and shiprepairers, large and small, accord with the real spirit of American private enterprise and reflect an abiding sense of confidence in the future for the industry.

While the volume of newbuilding contracts for both merchant and naval vessels has been generally on a downward curve, this upgrading is pointed toward a hopeful change within the world of shipbuilding coincident with a return to some semblance of normalcy within the world of shipping in the mid-1980's. It hopefully envisions development of a positive U.S. national maritime policy and fulfillment of announced goals to expand the U.S. Navy to 600 ships by the early 1990's.

The progression of these investments in plant and equipment started with enactment of the Merchant Marine Act of 1970 which promised the construction of 300 ships over a ten-year period: 30 ships per year. Unfortunately, the expectation of new contracts was short-lived, principally as a consequence of the global economic repercussions to the 1973 oil embargo. As a result, only 82 merchant vessels were ordered under the program contemplated by the 1970 Act.

Even so, in the early part of the program, the benefits of these capital improvements were apparent. By reason of an increased industry throughput and the economies of scale associated with repetitive production, construction subsidy levels were greatly reduced. In certain categories of ships, U.S. shipbuilders were close to being world competitive.

An eventual return to world markets, in a meaningful way, is at the center of the aspirations of the U.S. shipbuilding industry. U.S. shiprepairers already perform voyage repairs on a significant number of foreign-flag merchant ships. Lower costs and better delivery schedules can be derived from efficient utilization of upgraded facilities, but efficient utilization cannot be accomplished without an improved market demand for both ships, shipbuilding and shiprepairing.

With an improved demand and an increased throughput, there can be opportunities to emulate the Japanese who for some years have dominated world shipbuilding: more middle managers experienced in industrial enginering, more coordination between production control and material procurement, and more product-oriented work breakdown packages for more effective planning, scheduling and production. Product-oriented methods which have been successfully employed in Japan originated in the United States during World War II and are now again being adapted to U.S. shipbuilding

as conditions permit. With a sufficient throughput, the potentials for improvements in efficiency, productivity and costs are obviously substantial.

Upgraded capabilities are in place, and the U.S. shipbuilding industry is ready to move ahead as market demands improve. With an inherent ability to accommodate greater workloads, U.S. shipbuilders can undertake an expanded demand for both naval and commercial ships — and then some. For the most part, U.S. shipyards are now, or have been, operating on a less than three shift basis. For the most part their enhanced capabilities and their skilled labor force have a great potential if there is a sufficient throughput of work.

Dr. H. Shinto, a world-acclaimed Japanese shipbuilding engineer and executive, said less than three years ago: "Only America has the resources to surpass Japan in shipbuilding — I mean large numbers of intelligent people." Clearly, leaders of the U.S. industry have taken a considerable risk in improving the Nation's shipyard resources in spite of unclear prospects. All that is needed is a coordinated national shipbuilding industrial strategy to ensure that those resources are efficiently utilized for the good of the country, just as in Japan.

BENCHMARKS

Merchant Ship Orders: During 1981, U.S. private shipyards received contracts for only nine merchant ships aggregating 154,000 gross tons (gt). New orders for 1980 and 1979 were seven vessels (116,200 gt) and 21 vessels (487,170 gt) respectively. Contracts awarded in 1981 included five tankers, two tuna purseiners, one collier and one tug/barge.

Merchant Ship Deliveries: Merchant ship deliveries for 1981 totaled 22 vessels of 346,960 gt. In 1980, 23 ships of 788,388 gt were completed compared with 23 ships of 1,298,414 gt in 1979. 1981 deliveries consisted of six tankers, four ferries, three tug/barges, three Great Lakes ore carriers, two self-propelled hopper dredges, two tuna purseiners, one dry bulk carrier and one lighter aboard ship (LASH).

Merchant Ship Orderbook: As 1982 began, the backlog of merchant ships under construction or on order in U.S. commercial shipyards comprised 35 ships totaling 730,300 gt. One year earlier, the comparable figures were 49 ships and 937,260 gt. Composition of the current backlog: 10 tankers, nine tug/barges, three containerships, three container-roll on/roll off vessels, three self-propelled hopper dredges, two dry bulk carriers, two ferries, two tuna purseiners and one collier.

Oil Drilling Rigs: U.S. shipyards, during 1981, received contracts to build 26 new mobile oil drilling rigs. The comparable number for 1980 was 53 rigs which was the all-time high. For contracts received in 1981, 20 were jackups, five were submersiles, and one was for a semi-submersible. At the close of 1981, there were 66 rigs on order or under construction compared with 72 rigs at the end of 1980. A total of 31 rigs of all types were delivered in 1981. Deliveries for 1980 totaled 16.

Naval Ship Orders: In 1981, orders for 28 new naval ships were placed in U.S. private shipyards compared to 11 ships in 1980. They included six guided missile frigates of the OLIVER HAZARD PERRY (FFG-7) class, five ocean surveillance ships (T-AGOS), three attack submarines (SSN), two guided missile cruisers (CG), one dock landing ship (LSD), one salvage ship (ARS) and one TRIDENT submarine (SSBN). Nine U.S. Coast Guard medium endurance cutters are also included in the total for naval ship orders. At year end, still to be ordered were 17 ships in the FY'82 naval ship program: four T-AGOS, three AEGIS cruisers (CG-47 Class), three FFG's, two SSN's, two salvage ships (ARS), one mine counter-measures ship (MCM) and one AO.

Naval Ship Deliveries: U.S. shipyard deliveries in 1981 included 26 naval vessels: nine guided missile frigates (FFG), seven attack submarines (SSN), three guided

COMPARISON

Proposed FY '83 Federal Budget for Shipbuilding and Repair with Prior Years Appropriations

(Millions)

	FY '81 Actual	FY '82 Appropriated	FY '83 Request
Navy Shipbuilding & Conversion	$ 7,719.4	$ 8,638.9	$18,648.3
Navy Ship Repair/Alteration (Est.)	3,767.2	3,933.8	4,395.0
Merchant Ship Const.	135.0	-0-	-0-
U.S. Coast Guard (Est.)	125.0	177.0	175.0*
Corps of Engineers	76.6	34.6	32.6
Total	**$11,823.2**	**$12,784.3**	**$23,250.9**

*See U.S. Coast Guard explanation

missile destroyers (DDG), two fleet ocean tugs (T-ATF), two fleet oilers (AO), one submarine tender (AS), one TRIDENT (SSBN) and one destroyer tender (AD).

Naval Ship Orderbook: At the close of 1981, U.S. private shipyards had 93 naval vessels of 573,332 light displacement tons (ldt) under construction or on order. Comparable figures at the end of 1980 were 91 vessels of 628,418 ldt. Current naval shipbuilding orderbook is set forth in detail on page 22.

Proposed FY'83 Navy Budget: The requested budget for naval ship construction and conversion in FY'83 totals $18,648.3 million compared with $7,719.4 and $8,638.9 million in FY'81 and FY'82 respectively. This substantial increase, however, reflects naval newbuilding of only one ship more than FY'82 (60% of the added funding will be for nuclear aircraft carriers and submarines). Proposed FY'83 Navy Shipbuilding and Conversion (SCN) account envisions construction of 16 combatants and two auxiliary ships plus seven conversions.

Proposed FY'83 Maritime Administration Budget: The FY'83 Maritime Administration budget request includes no funding for subsidized merchant ship construction. Funding for FY'82 was $107 million.

U.S. Coast Guard: No new budget dollars for ship acquisition were requested for FY'83. Instead the Coast Guard will use approximately $175 million from $300 million FY'82 Department of Navy shipbuilding funds assigned to the Coast Guard by the Congress. FY'82/'83 activity will include completion of nine-ship 270 ft medium endurance cutter new construction program, acquisition of two special craft, renovation of one buoy tender and one ice-breaker, and the Fleet Renovation and Modernization (FRAM) of one medium-endurance and one high-endurance cutter.

U.S. Army Corps of Engineers: No new construction funds were requested for coming year. Funds requested cover construction costs of previously awarded dredges plus rehabilitation of existing dredges and floating equipment.

Employment Hours and Earnings: Latest tabulation of 1981 data made available by the U.S. Bureau of Labor Statistics (BLS) shows that the total employment in private shipyards was 172,600 in October. Average for 10 months was 178,300. Yearly averages for 1980 and 1979 were 175,700 and 173,300 respectively. BLS

figures further indicated that during October, employment of production workers totaled 128,500. Comparable annual averages of production workers for 1980 and 1979 were 138,800 and 137,900 respectively.

Gross hourly earnings of shipyard production workers averaged $9.77 in October 1981 as compared to a yearly average of $8.55 in 1980 and $7.67 in 1979. Average weekly earnings in October 1981 amounted to $409.36 as compared to an annual average of $348.84 in 1980 and $302.97 in 1979. Private shipyard production workers worked an average of 41.9 hours per week in October 1981, as compared to an annual average of 40.8 hours in 1980 and 39.5 hours in 1979.

All employment, hours and earnings statistics for the private shipbuilding and ship-repairing industry were revised by BLS to a new 1980 benchmark. Data for 1979, 1980 and 1981 are the only years affected by the benchmark change.

Naval Shipyard Employment: In October 1981, employment in the eight government-owned and operated naval shipyards totaled 77,300. The average for the first ten months of 1981 was 76,000. Averages for 1980 and 1979 were 72,400 and 71,100 respectively.

ACTIVITIES

Major changes in the organizational, functional and physical form of the Council were accomplished in 1981 as a result of actions by the Executive Committee and the Board of Directors.

In addition, policy objectives were more precisely defined to recognize the realities of Administration stances affecting merchant and naval shipbuilding programs, and the full resources of the Council were marshalled to develop appropriate alternatives which could ensure the maintenance of an adequate shipbuilding mobilization base at least cost to the public treasury.

Most noticeable of these changes was the relocation of the Council's headquarters to Suite 1250, 1110 Vermont Avenue, NW, Washington, DC 20005, based on a forecast of dollar savings in rent and related expenditures over a long-term lease.

Organizationally, the Committee structure (pages 15-17) of the Council was carefully reviewed. The charters of all Committees were revised to take into account changing economic, legislative and political nuances, and the Executive Committee was assigned greater responsibilities for monitoring and coordinating the activities of all Committees. Guidelines for the conduct of those activities were prescribed by the Board of Directors.

Functionally, in recognition of the critical and correlative roles of ship design and ship component manufacture in the maintenance of the shipbuilding industrial mobilization base, the By-Laws were amended to permit representation of Allied Industries and Naval Architect Members on all Committees of the Council. Of special significance was the action of the Board of Directors in adding an Allied Industry Member to the Executive Committee.

Because of increasing costs for paper, postage and printing, the Board of Directors also imposed an annual subscription rate for the SHIPYARD WEEKLY to those companies or individuals ineligible for membership in the Council. At year-end, the subscription list was mounting daily.

During the year, the following dignitaries spoke at the quarterly luncheons sponsored by the Board of Directors:

Congressman Jack Edwards (R-AL), Ranking Minority Member, Subcommittee on Defense, Committee on Appropriations, House of Representatives

Lawrence J. O'Brien, Chief Counsel, Committee on Merchant Marine and Fisheries, House of Representatives

Dr. William Schneider, Jr., Associate Director, Office of Management and Budget

Rainer Wollmann, President, Association of West European Shipbuilders

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NAVAL VESSELS

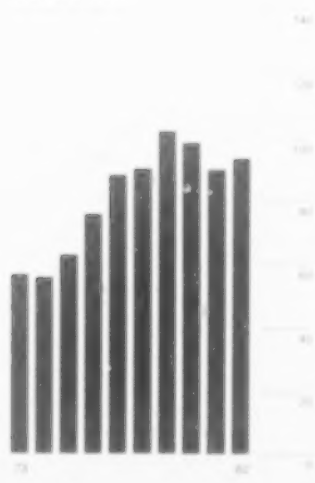
Deliveries by calendar years
(Ships of 1,000 light displacement tons and larger)

NAVAL VESSELS

Deliveries by calendar years
(Ships of 1,000 light displacement tons and larger)

NAVAL VESSELS

Building or on order as of Jan. 1
(Ships of 1,000 light displacement tons and larger)



MERCHANT VESSELS

Deliveries by calendar years
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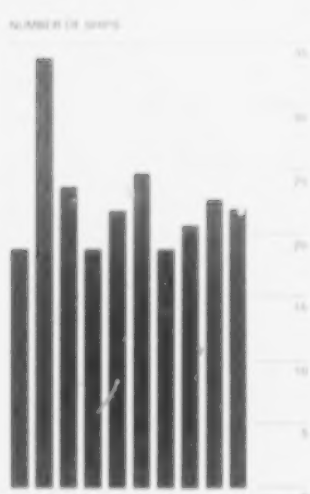

MERCHANT VESSELS

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(Ships of 1,000 gross tons and larger)

MERCHANT VESSELS

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(Ships of 1,000 gross tons and larger)

NAVAL VESSELS

Building or on order as of Jan. 1
(Ships of 1,000 light displacement tons and larger)

NAVAL VESSELS

Ordered by calendar years
(Ships of 1,000 light displacement tons and larger)

NAVAL VESSELS

Ordered by calendar years
(Ships of 1,000 light displacement tons and larger)

MERCHANT VESSELS

Building or on order
as of Jan. 1
(Ships of 1,000 gross tons and larger)

MERCHANT VESSELS

Ordered by calendar years
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MERCHANT VESSELS

Ordered by calendar years
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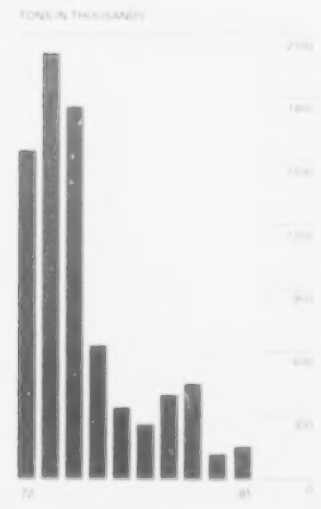
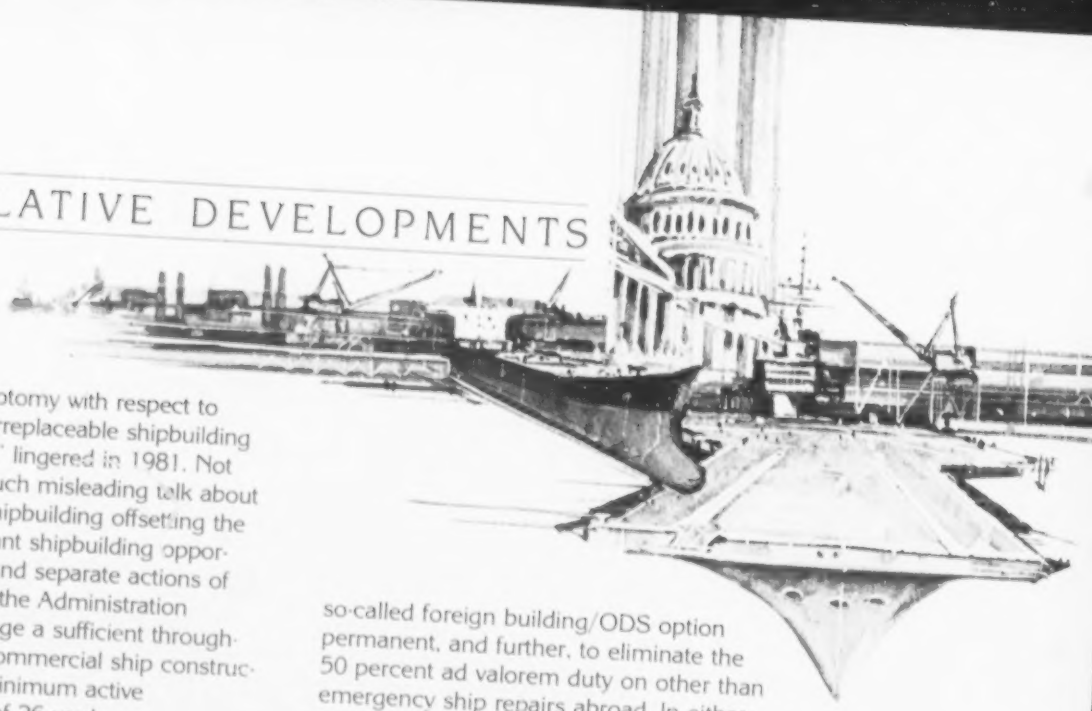


LEGISLATIVE DEVELOPMENTS



A surprising dichotomy with respect to maintaining an "irreplaceable shipbuilding mobilization base" lingered in 1981. Not only was there much misleading talk about increased naval shipbuilding offsetting the scarcity of merchant shipbuilding opportunities, but joint and separate actions of the Congress and the Administration tended to discourage a sufficient throughput of naval and commercial ship construction to sustain a minimum active shipbuilding base of 26 yards.

The Reagan Administration cut construction-differential subsidy (CDS) funding from the FY '82 Budget. The Director of the Office of Management and Budget included Title XI ship mortgage guarantees, as authorized by the Merchant Marine Act of 1936, among Federal credit programs to be reduced or eliminated. The uncustomary Omnibus Budget Reconciliation Act of 1981 contained a provision which would qualify foreign-built merchant vessels, of 5,000 dwt and over, for operating-differential subsidy (ODS) until September 30, 1983 if sufficient CDS monies are not available. And, Administration officials made clear that maritime subsidies, in the traditional sense, are, for all practical purposes, finished.

This negative prophecy of future U.S. maritime policy prompted much silent hand-clapping among shipbuilders in other lands who see visions of job opportunities for their own people. It is likewise viewed by subsidized U.S.-flag shipowners as a timely opportunity (1) to sever the long-standing statutory requirement which has conditioned the availability of ODS on the acquisition of U.S.-built ships, and (2) to take advantage of the below-cost "political pricing" practices of certain shipbuilders in other countries.

Within the ship operating community, there is already movement toward making the so-called foreign building/ODS option permanent, and further, to eliminate the 50 percent ad valorem duty on other than emergency ship repairs abroad. In either case, the Federal budget will not be appreciably lowered: ODS exceeds CDS by a factor of more than two to one, and custom duties on foreign repairs, minimal by degree, have historically been invoked to stimulate the preservation of a national security shiprepairing capability in the United States.

In 1981, there were, nonetheless, other legislative and administrative actions of a more encouraging nature. A proposal to export Alaskan oil with consequent diminution of the U.S. domestic tanker fleet was rejected by the Cabinet Council on Natural Resources and Environment. Progress was made in bringing reform of the costly Longshoremen's and Harbor Workers' Compensation Act, as amended in 1972, closer to a vote on Capitol Hill. Legislation was introduced on Capitol Hill to promote bilateral shipping agreements as a means of (1) increasing the volume of dry bulk commodities (at present 1.2 percent) carried by U.S.-flag, U.S.-built shipping, and (2) promoting market opportunities for U.S. shipbuilding. And, the out-dated profit-limiting requirement of the Vinson-Trammell Act of 1932 was effectively repealed by the FY '82 Defense Department Authorization Bill which contained a provision for the President of the United States "upon a declaration of war or national emergency" to prescribe regulations to control excessive profits on defense contracts."

Large Merchant Type Vessels Under Construction or on Order
(1,000 gross tons and larger)

	January 1, 1979		January 1, 1980		January 1, 1981		January 1, 1982	
	No.	G.T.	No.	G.T.	No.	G.T.	No.	G.T.
Ferry	8	27,580	9	29,680	6	20,890	2	7,930
Tanker	12	993,384	9	267,000	11	274,900	10	258,400
LNG Carrier	11	952,525	7	632,725	0	0	0	0
Tug/Barge	5	70,000	12	245,000	12	245,000	9	195,000
Ro/Ro Barge	1	7,500	0	0	0	0	0	0
Containership	5	119,060	6	195,400	3	121,470	3	121,470
Container-Ro/Ro Ship	2	37,000	3	55,500	3	55,500	3	55,500
Barge Carrier	2	60,000	2	60,000	1	30,000	0	0
Heavy-Lift	1	4,000	0	0	0	0	0	0
Breakbulk	3	3,000	2	2,000	0	0	0	0
Dry Bulk Carrier	5	117,500	5	117,500	3	70,500	2	47,000
Great Lakes Ore Carrier	7	221,200	6	180,200	3	89,500	0	0
Hopper Dredge	4	16,443	6	30,443	5	27,500	3	20,000
Pipe Laying Ship	1	3,000	0	0	0	0	0	0
Tuna Purseiner	3	3,000	2	2,000	2	2,000	2	2,000
Collier	0	0	0	0	0	0	1	23,000
Totals	**70**	**2,635,192**	**69**	**1,816,448**	**49**	**937,260**	**35**	**730,300**

Shipbuilding Activity in Private Shipyards
(During Calendar Years 1978, 1979, 1980, and 1981)

	1978		1979		1980		1981	
Merchant Vessels	No.	Tons	No.	Tons	No.	Tons	No.	Tons
Under Construction Jan. 1	60	3,467,303	70	2,635,192	69	1,816,448	49	937,260
Ordered during year	30	394,023	21	487,170	7	116,200	9	154,000
Delivered during year	19	1,027,134	21	1,298,414	23	788,388	22	346,960
Cancelled during year	1	199,000	1	7,500	4	207,000	0	0
Under Contract on Dec. 31	70	2,635,192	69	1,816,448	49	937,260	35	730,300
Naval Vessels								
Under Construction Jan. 1	91	652,457	102	676,913	99	629,782	91	628,418
Ordered during year	25	119,478	13	60,646	11	101,072	28	97,307
Delivered during year	14	95,022	16	107,777	19	102,436	26	152,193
Under Contract on Dec. 31	102	676,913	99	629,782	91	628,418	93	573,132

Notes: Vessels of 1,000 tons and larger, tonnage of merchant ships shown in gross tons, naval vessels in light displacement tons.

Naval Vessels Under Construction or on Order in Private Shipyards as of January 1, 1982

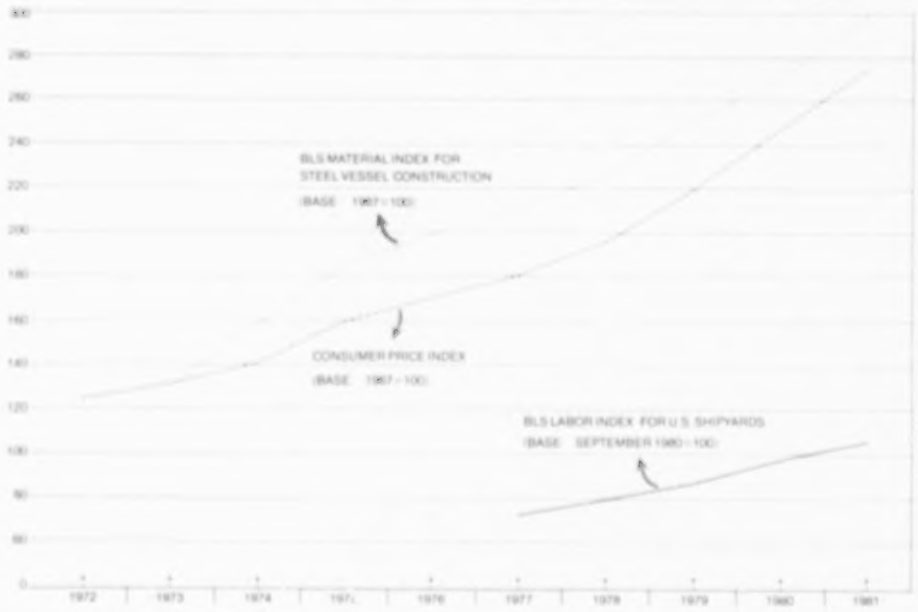
TYPE	No. of Vessels	Total Light Disp. Tons
Destroyer Tender (AD)	2	26,800
Fleet Oiler (AO)	2	19,000
Salvage Ship (ARS)	1	2,725
Guided Missile Cruiser (CG)	4	35,640
Aircraft Carrier (Nuclear) (CVN)	2	142,000
Destroyer (DD)	1	5,000
Guided Missile Destroyer (DDG)	1	8,200
Guided Missile Frigate (FFG)	31	84,537
Dock Landing Ship (LSD)	1	11,100
Ballistic Missile Submarine (Nuclear) (SSBN)	7	87,500
Attack Submarine (Nuclear) (SSN)	19	114,000
Ocean Surveillance Ship (T-AGOS)	8	12,800
Cable Repair Ship (T-ARC)	1	8,430
Medium Endurance Cutters (USCG)	13	15,600
Total	93	573,332

Approximate Value of Unfinished Shipbuilding Work in Private Shipyards as of January 1
(thousands of dollars)

YEAR	COMMERCIAL SHIPS	NAVAL SHIPS	TOTAL
1969	800,000	1,700,000	2,500,000
1970	765,000	1,719,000	2,484,000
1971	765,000	1,925,000	2,690,000
1972	1,058,000	2,255,000	3,319,000
1973	2,950,000	3,160,000	6,110,000
1974	3,770,000	3,603,000	7,373,000
1975	4,350,000	5,424,000	9,774,000
1976	3,400,000	6,500,000	9,900,000
1977	3,000,000	6,802,000	9,802,000
1978	2,120,000	7,508,000	9,628,000
1979	1,940,000	9,369,000	11,309,000
1980	2,070,000	9,075,000	11,145,000
1981	1,000,000*	9,350,000*	10,350,000*
1982	838,000	11,102,000	11,940,000

*Revised

Average Indicies: Values for U.S. Shipyard Labor/ Material and Consumer Price



Dollar Volume of Repair and Conversion Work Performed by Private Yards

(millions of dollars)

YEAR	COMMERCIAL SHIPS*** $ AMOUNT	%	NAVAL SHIPS $ AMOUNT	%	TOTAL
1969	532	58.1	384	41.9	916
1970	431	54.6	359	45.4	790
1971	450	58.1	325	41.9	775
1972	484	55.6	387	44.4	871
1973	523	57.0	393	43.0	916
1974	713	57.0	533	43.0	1246
1975	688	55.4	554	44.6	1242
1976	715	52.6	644	47.4	1359
1977	789	52.0	718	48.0	1507
1978	809	47.0	912	53.0	1721
1979	998	51.0	969	49.0	1967
1980	1,048**	49.0	1,095**	51.0	2143**
1981	1,148**	48.0	1,226**	52.0	2374**

*Revised **Estimated ***Includes Military Sealift Command (MSC)
Source — Bureau of Census and Shipbuilders Council of America

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512 Florida Avenue, Suite 430, Tampa, FL 33602
AmShip Division, Lorain, OH, and Toledo, OH
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Post Office Box 50280
New Orleans, LA 70150

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700 Washington Street, Bath, ME 04530

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Shipbuilding Division, Bethlehem, PA 18016
Baltimore, MD, Beaumont, TX
Boston, MA, Hoboken, NJ
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Building 131, Brooklyn, NY 11205

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Quonset Point, RI
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and Charleston, SC

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Litton Industries
Post Office Box 149, Pascagoula, MS 39567

Jacksonville Shipyards, Inc.
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2929 Sixteenth Avenue, SW
Seattle, WA 98134

Marine Power & Equipment Co., Inc.
1441 North Northlake Way
Seattle, WA 98103

Marinette Marine Corp.
Ely Street, Marinette, WI 54143

Maryland Shipbuilding & Drydock Co.
Post Office Box 537, Baltimore, MD 21203

National Steel & Shipbuilding Co.
Harbor Drive at Twenty-Eighth Street
Post Office Box 80278
San Diego, CA 92138

Newport News Shipbuilding
4101 Washington Avenue
Newport News, VA 23607

Norfolk Shipbuilding & Drydock Co.
Post Office Box 2100, Norfolk, VA 23501
Norfolk, VA (2 plants), Berkeley, VA

Savannah Shipyard Co.
Post Office Box 787, Savannah, GA 31402

Southwest Marine, Inc.
Foot of Sampson Street
Post Office Box 13308, San Diego, CA 92113

Sun Ship, Inc.
Foot of Morton Avenue, Chester, PA 19013

Todd Shipyards Corp.
Todd Pacific Shipyards Corp.
One State Street Plaza, New York, NY 10004
Alameda, CA, Brooklyn, NY, Galveston, TX,
Houston, TX, Los Angeles, CA,
New Orleans, LA, Seattle, WA

Tracor Marine, Inc.
Post Office Box 13107, Port Everglades, FL 33316

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PRC Guaralnick
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1600 Wilson Boulevard, Arlington, VA 22209

New England Ship Repair Yard Assn.
256 Marginal Street, East Boston, MA 02128

New York New Jersey Dry Dock Assn.
161 William Street, New York, NY 10038

Western Shipbuilding Assn.
Post Office Box 3976
San Francisco, CA 94[illegible]3

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Consulting Actuaries, Inc.

Auditor: Paul W. Huber

Counsel: Collier, Shannon, Rill & Scott

Graphics: Gene Galasso Associates

Investment Counselor: Loomis, Sayles & Co., Inc.

Travel: Chevy Chase Travel, Inc.

(a) to promote the maintenance of a sound private shipbuilding and shiprepairing industry in the United States;

(b) to inform its members of economic, governmental, industrial, legislative and judicial developments affecting the shipyard industry of the United States, either directly or indirectly;

(c) to improve conditions under which the operations of the industry are carried on;

(d) to conserve and develop the industry as an essential element of national sea power;

(e) to promote the development and maintenance of an adequate mobilization potential of privately-owned shiprepairing and allied industry facilities as well as shipbuilding, skilled personnel for availability in time of national emergency;

(f) to preserve a balanced workforce and to promote employment opportunities for disadvantaged citizens;

(g) to inform the public of the role of shipbuilding and shiprepairing in terms of impact on the national economy and in terms of technological progress;

(h) to promote the interests of the industry through the conduct of usual and lawful trade association activities;

(i) to establish and maintain active cooperation by shipbuilders, shiprepairers, and allied industries with such other persons, groups, corporations, and associations as may have a joint interest in the attainment of these purposes;

(j) to provide a forum for the discussion of common problems affecting shipbuilding and shiprepairing in the United States; and

(k) to afford a means of cooperation with the government in matters of national concern.